

 Scott's *Restaurants Co. Limited*

File



Directors and Officers



DIRECTORS

GEORGE R. GARDINER

F. RONALD GRAHAM

WILLIAM J. BUSHNELL

ROBERT A. STEVENS

JOHN J. LEON

JOHN E. COLES

MRS. HELEN D. PHELAN

THE HON. SALTER A. HAYDEN, Q.C.

LEON SIMARD

OFFICERS

GEORGE R. GARDINER
Chairman of the Board

F. RONALD GRAHAM
Vice-Chairman of the Board

JOHN J. LEON
President

PETER J. M. BURGER
*Vice President; General Manager
Take-Out Operations — Ontario*

THOMAS W. CHASE
*Vice President; General Manager
Food Service Operations*

MELVILLE W. FANSHAW
*Vice President; General Manager
Take-Out Operations — Quebec*

JAMES G. GIBSON
Vice President; Finance and Treasurer

EDMUND V. GRAHAM
Secretary

Head Office
2000 Jane Street, Weston, Ontario

Solicitors
McCarthy & McCarthy

Registrars and Transfer Agents
Montreal Trust Company

Bankers
The Royal Bank of Canada

Auditors
Campbell, Lawless & Punchard

Listed
*Toronto Stock Exchange
Montreal Stock Exchange*

To Our Shareholders:

In the 1972 fiscal year, Scott's Restaurants Co. Limited again exceeded any previous year in both sales and profits.

- **1972 sales increased 20.7%** to \$46,105,190
- **1972 net earnings increased 25.0%** to \$4,035,369
- **1972 earnings per share increased 24.4%** to 96³/₄¢

The continued growth was due largely to the rapid expansion of our Scott's Kentucky Fried Chicken division. Your Company in 1972 either opened or acquired an additional 21 Kentucky Fried Chicken Take-Out Shops; 12 in the Province of Ontario and 9 in the Province of Quebec. As at December 31, 1972, the following Kentucky Fried Chicken Take-Out Shops were owned by your Company.

- **89 in the province of Ontario**
- **46 in the province of Quebec**
- 135 total**

The acquisition of the franchises for the Cornwall and Hawkesbury areas in 1972 enabled the Company to strengthen its penetration in the Ottawa area.

Our minimum target for openings in 1973 is 25 sites, however, if real estate opportunities present themselves, this number could be exceeded. As of March 29, 1973, we have accomplished:

- **7 locations opened**
- **3 under construction**
- **5 sites being finalized**

The past year was also one of progress in the Food Service Division of your Company. A more clearly defined management structure has been developed in this division; marginal and unprofitable segments of the operation have been discontinued and profit objectives have been established.

In the future we will continue to expand our Kentucky Fried Chicken Take-Out Shops, and we will be constantly looking at new projects in the Food Service field which offer expansion opportunities for this division of your Company. As part of our expansion programme in the Province of Quebec, we are opening in co-operation with a major oil company the first Service Centre on the Laurentian Auto Route north from Montreal.

I am pleased to report that the employee and management training programmes which we instituted last year have been fully implemented under two Employee Service Managers, one in Ontario and one in Quebec and this will assure that sufficient trained personnel will be available to meet operational needs of our expanding Company.

It is anticipated that our projected cash flow will serve the needs of the Company in 1973.

John E. Coles, a Vice President who for many years made important contributions to the Company retired in 1972 and will continue to serve on the Board of Directors.

The Board of Directors and management express its appreciation to employees, customers and suppliers, all of whom contributed to the Company's continued growth in 1972.

On Behalf of the Board of Directors



J. J. Leon, President

March 29, 1973

Consolidated Earnings

Year ended December 31, 1972

SCOTT'S RESTAURANTS CO. LIMITED

and subsidiary companies



	1972	1971
Sales	\$46,105,190	\$38,179,295
Cost of goods sold, operating and administrative expenses	38,347,773	31,604,805
Earnings from operations	7,757,417	6,574,490
Interest income	77,968	36,293
Earnings before income taxes	7,835,385	6,610,783
Provision for income taxes (note 3)	3,800,016	3,381,047
Net earnings for the year	\$ 4,035,369	\$ 3,229,736
Earnings per share (note 9)	\$.96 ³ / ₄	\$.77 ³ / ₄

Consolidated Retained Earnings

Year ended December 31, 1972

	1972	1971
Balance at beginning of year	\$ 6,514,771	\$ 4,200,768
Net earnings for the year	4,035,369	3,229,736
	10,550,140	7,430,504
Deduct — goodwill purchased and excess of cost of investment in subsidiaries over values assigned to their net tangible assets	48,417	915,733
Balance end of year	\$10,501,723	\$ 6,514,771

Scott's Restaurants Co. Limited

and subsidiary companies

Assets

Current

	1972	1971
Cash and short term investments	\$ 2,264,607	\$ 1,698,456
Accounts receivable	241,761	116,676
Inventories at cost	411,984	320,884
Deposits and prepaid expenses	85,292	106,658
	<u>3,003,644</u>	<u>2,242,674</u>

Other

Franchises, at cost less amortization (note 2)	2,721,064	2,332,407
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Fixed — at cost

Land	3,154,670	1,995,557
Buildings	7,610,137	5,751,483
Equipment and motor vehicles	6,187,499	4,558,285
Leasehold improvements	1,491,951	1,337,381
	<u>18,444,257</u>	<u>13,642,706</u>
Less accumulated depreciation and amortization (note 2)	3,300,783	2,414,463
	<u>15,143,474</u>	<u>11,228,243</u>
	<u>\$20,868,182</u>	<u>\$15,803,324</u>

Approved on behalf of the Board

George R. Gardiner, *Director*

J. J. Leon, *Director*

Consolidated Balance Sheet

December 31, 1972



Liabilities

	1972	1971
Current		
Accounts payable and accrued expenses	\$ 3,599,620	\$ 2,117,992
Current portion of long term debt	39,980	66,124
Income taxes payable	485,607	998,272
	<u>4,125,207</u>	<u>3,182,388</u>
Long-term debt	16,000	55,980
Deferred income taxes (note 3)	552,146	401,579
	<u>4,693,353</u>	<u>3,639,947</u>
 SHAREHOLDERS' EQUITY		
Share Capital (notes 4 and 5)	5,673,106	5,648,606
Retained Earnings	10,501,723	6,514,771
	<u>16,174,829</u>	<u>12,163,377</u>
	<u>\$20,868,182</u>	<u>\$15,803,324</u>

Auditors' Report

To the Shareholders of Scott's Restaurants Co. Limited

We have examined the consolidated balance sheet of Scott's Restaurants Co. Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 7, 1973

Campbell, Lawless & Punchard
Chartered Accountants

Consolidated Source and Application of Funds

Year ended December 31, 1972

SCOTT'S RESTAURANTS CO. LIMITED

and subsidiary companies

Source of Funds

	1972	1971
Net earnings	\$4,035,369	\$3,229,736
Add expenses included therein not requiring a current outlay of funds —		
Depreciation and amortization of improvements	938,427	737,977
Amortization of franchises	111,343	107,765
Deferred income tax	150,567	141,104
Funds received from operations	5,235,706	4,216,582
Common shares issued for cash	24,500	51,500
Total funds received	5,260,206	4,268,082

Application of Funds

Purchase of goodwill, franchise and fixed assets	5,402,075	3,421,365
Retirement of and decrease in long term debt	39,980	505,904
Total of funds expended	5,442,055	3,927,269
Increase (decrease) in working capital	<u><u>\$ (181,849)</u></u>	<u><u>\$ 340,813</u></u>

Notes to the Consolidated Financial Statements

December 31, 1972

SCOTT'S RESTAURANTS CO. LIMITED



1. Principles of consolidation

The accompanying consolidated financial statements include the accounts of Scott's Restaurants Co. Limited and its subsidiaries, all wholly owned.

2. Amortization and depreciation policies

The cost of franchises purchased is being amortized over the term of the franchise agreement with Colonel Sanders Kentucky Fried Chicken Ltd. which terminates in 1994.

Depreciation on fixed assets has been provided at the following rates:

Buildings — 5% straight line; Equipment — 10% straight line; Motor vehicles — 30% diminishing balance; Leasehold improvements — terms of leases.

3. Income taxes

The companies follow the tax allocation principle of providing for income taxes whereby deferred income taxes are set up with respect to capital cost allowances claimed for tax purposes in excess of depreciation recorded in the accounts.

4. Share Capital

Authorized

5,000,000 shares without par value

Issued

	Number of Shares	Dollars
Balance at December 26, 1971	4,164,760	\$5,648,606
Shares issued in connection with exercise of employee share options (note 5)	17,000	24,500
Balance at December 31, 1972	4,181,760	\$5,673,106

5. Employee Share Option Plans

The company has in force share option plans for certain of its employees under which options were taken up during the year to the extent of 15,000 shares at \$0.833 per share and 2,000 shares at \$6.00 per share. Options for 11,500 shares were outstanding at the year-end exercisable at \$6.00 per share to September 12, 1974.

6. Long term leases

The company is committed in respect of long term rentals for a number of its properties requiring minimum rental payments of approximately \$286,000 annually to 1980.

7. Capital commitments

The company and its subsidiaries were committed as at December 31, 1972 to capital expenditures of approximately \$448,000 in connection with their current expansion programme.

8. Remuneration of Directors and Officers

The aggregate direct remuneration paid by the companies to the nine directors as such was \$7,250 and to the six officers was \$153,014.

9. Earnings per share

The earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years (1972-4,173,260; 1971-4,153,843).

Combined Statement of Earnings

SEVEN YEARS

SCOTT'S RESTAURANTS CO. LIMITED

FOR THE 52 WEEKS ENDING

	December 31 1972*	December 26 1971	December 27 1970	December 28 1969	December 29 1968	December 30 1967	December 31 1966
Sales	\$46,105,190	\$38,179,295	\$30,023,495	\$18,810,516	\$11,882,891	\$9,295,392	\$6,863,291
Earnings before depreciation and amortization	\$ 8,807,187	7,420,232	5,430,542	3,160,152	1,852,596	1,197,937	701,065
Provision for depreciation and amortization of franchises	1,049,770	845,742	617,245	392,801	250,200	235,489	191,460
	7,757,417	6,574,490	4,813,297	2,767,351	1,602,396	962,448	509,605
Income from investments	77,968	36,293	83,382	81,473	—	14,172	11,137
Earnings before income tax	7,835,385	6,610,783	4,896,679	2,848,824	1,602,396	976,620	520,742
Income tax	3,800,016	3,381,047	2,606,666	1,511,701	839,634	499,853	265,315
Net earnings	\$ 4,035,369	\$ 3,229,736	\$ 2,290,013	\$ 1,337,123	\$ 762,762	\$ 476,767	\$ 255,427
Earnings per share	96 ³ / ₄ ¢	77 ³ / ₄ ¢	55 ¹ / ₂ ¢	38 ³ / ₄ ¢	24 ¹ / ₂ ¢	15 ¹ / ₂ ¢	8 ¹ / ₄ ¢
Number of Employees	2,140	1,950	1,875	1,525	992	792	791
Locations in operation	169	153	143	108	71	60	58

* 53 Weeks



Service Centre — Laurentian Auto Route — Québec

Notes

**SCOTT'S RESTAURANTS CO.
LIMITED**

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

	<i>July 9, 1972 (unaudited)</i>	<i>Dec. 26, 1971 (audited)</i>
Assets		
Current		
Cash	\$ 1,713,745	\$ 1,698,456
Accounts Receivable, Inventories and Miscellaneous	647,634	524,776
	<u>2,361,379</u>	<u>2,223,232</u>
Franchise at cost less amortization	2,274,377	2,332,407
Mortgage	18,654	19,442
Fixed Assets at cost less depreciation	12,588,266	11,228,243
	<u>\$17,242,676</u>	<u>\$15,803,324</u>
Liabilities		
Current		
Accounts payable and accrued expenses . . .	\$ 2,326,501	\$ 2,117,992
Current portion of long term debt	66,124	66,124
Income Tax Payable . . .	289,978	998,272
	<u>2,682,603</u>	<u>3,182,388</u>
Long Term Debt	13,860	55,980
Deferred Income Tax . . .	448,686	401,579
	<u>3,145,149</u>	<u>3,639,947</u>
Shareholders' Equity		
Share Capital (4,181,760 shares at July 9, 1972)	5,673,106	5,648,606
Retained Earnings	8,424,421	6,514,771
	<u>14,097,527</u>	<u>12,163,377</u>
	<u>\$17,242,676</u>	<u>\$15,803,324</u>

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Scott's Restaurants Co. Limited



**Interim Report
to Shareholders**

28 WEEKS ENDED JULY 9, 1972

August 18, 1972

Dear Shareholder

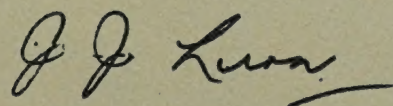
It is with pleasure that I am reporting on the operation of your Company for the 28 weeks ended July 9th, 1972.

In the summary, the unaudited results on a comparison basis are as follows:

	<i>1972 28 weeks ended July 9, 1972</i>	<i>1971 28 weeks ended July 11, 1971</i>	<i>Percentage Increase 1972 over 1971</i>
Sales.....	\$22,768.356	\$19,196.526	18.6%
Earnings after Taxes.....	1,909.650	1,477.951	29.2%
Per share Earnings....	45.7¢	35.5¢	

We are continuing our expansion program and as at July 9th, 1972, we have 85 Colonel Sanders Kentucky Fried Chicken outlets in operation in Ontario and 43 in the Province of Quebec.

We expect that sales and profits will continue to show a satisfactory increase for the balance of the year 1972.



President

SCOTT'S RESTAURANTS CO. LIMITED

AND SUBSIDIARY COMPANIES

(unaudited interim report)

CONSOLIDATED STATEMENT OF EARNINGS

	<i>For the 28 weeks ended July 9, 1972</i>	<i>July 11, 1971</i>
Sales	\$22,768,356	\$19,196,526
Earnings before depreciation and amortization	4,234,295	3,569,667
Provision for depreciation and amortization of franchise	523,510	446,286
	3,710,785	3,123,381
Income from Investments	33,565	26,429
Earnings before Income Tax	3,744,350	3,149,810
Income Tax	1,834,700	1,671,859
Net Earnings	\$ 1,909,650	\$ 1,477,951
Earnings per share	45.7¢	35.5¢

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS

Net Profit for the period	\$ 1,909,650	\$ 1,477,951
Add Expenses not requiring cash expenditure including depreciation, amortizations and deferred income tax	570,617	488,460
Funds provided by operations	2,480,267	1,966,411
Proceeds from shares issued under employee option plan	24,500	32,000
Other	788	1,275
	\$ 2,505,555	\$ 1,999,686

APPLICATION OF FUNDS

Additions to Fixed Assets	1,825,503	1,967,265
Reduction of Long Term Debt	42,120	445,411
	1,867,623	2,412,676

INCREASE IN WORKING CAPITAL	637,932	(412,990)
Working Capital (deficiency) beginning of period	(959,156)	(1,302,765)
Working Capital (deficiency) end of period	\$ (321,224)	\$ (1,715,755)